



BILL DRAFT 2007-RBz-32: Exempt Disaster Assistance Debit Sales

BILL ANALYSIS

Committee:	Revenue Laws Study Committee	Date:	April 2, 2008
Introduced by:		Summary by:	Cindy Avrette
Version:	Bill Draft		Committee Staff

SUMMARY: *This bill draft would exempt from sales tax tangible personal property purchased with a client assistance debit card issued for disaster assistance relief by a State agency or a federal agency or instrumentality. The American Red Cross is an instrumentality of a federal agency. The bill would become effective July 1, 2008, and apply to purchases made on or after that date.*

CURRENT LAW: The State may not impose its sales tax on purchases made by the federal government or an instrumentality of the federal government. G.S. 105-164.13(17) specifically exempts 'sales which a state would be without power to tax under the limitations of the Constitution or laws of the United States or under the Constitution of this State.' The American Red Cross (ARC) is an instrumentality of a federal agency. Therefore, sales made pursuant to a disbursing order issued by the ARC are considered a sale to the ARC that is exempt from taxation.

In the past, the ARC provided disaster assistance relief by giving disaster victims a disbursing order to purchase items that the victim needed. Over the last few years, the ARC has begun giving disaster victims debit cards to use to purchase these same items. The ARC began using debit cards because it believes they are more efficient, effective, and less bureaucratic for the victim and less administrative effort and expense for the organization. However, for purposes of the sales tax exemption, there is a significant difference between a debit card and a disbursing order: the purchaser, for purposes of the sales tax exemption, is the disaster victim when a debit card is used and it is the ARC when the disbursing order is used. Therefore, purchases made with a disaster assistance debit card are subject to sales tax.

BILL ANALYSIS: This bill draft would exempt from sales tax tangible personal property purchased with a client assistant debit card issued for disaster assistance relief by a State agency or a federal agency or instrumentality. The ARC is an instrumentality of a federal agency. Another example of a federal agency or instrumentality that may utilize this exemption would be FEMA.

This bill draft would extend the sales tax exemption that exists for purchases made through a disbursing order issued by a State or federal agency or instrumentality to purchases made with a client assistance debit card issued by it. It is my understanding that in 2007, the total disaster victim assistance purchases were \$3 million across all North Carolina chapters of the ARC.

BACKGROUND: The ARC client assistance card clearly identifies itself as one issued by the ARC. The ARC has the ability to see from its reports of the card's use the amount purchased and the store from which the goods were purchased. Unlike the old disbursing order system, the ARC does not have a cash register receipt describing the specific items purchased. The client assistance card authorization form is a contract between the ARC and the disaster victim. The contract stipulates the types of items the card may be used to purchase. In the event of inappropriate purchases, the card can be suspended.